



**Recommended 2003/2004 Budget
and
Ten-Year Resource Allocation Plan**

**City Manager's
Letter of Transmittal**

Sunnyvale Materials Recovery and Transfer (SMaRT) Station

The Sunnyvale Materials Recovery and Transfer Station Fund consists of two sub-funds. The SMaRT Station Fund accounts for operations at the SMaRT Station and receives its revenue from charges to the cities of Sunnyvale (Solid Waste Management Fund), Mountain View, and Palo Alto. Major operating cost components include the contract with the SMaRT Station operator and disposal fees and taxes collected by the Kirby Canyon Landfill. The fund is designed so that annual revenues and expenditures are in balance and that no fund balance is carried forward to the next year. Operating costs and revenues from the sale of recyclables are charged to or distributed to the cities based on the numbers of tons of solid waste each community brings to the SMaRT Station for materials recovery, transfer, and disposal.

The SMaRT Station Replacement sub-fund provides for the replacement of City-owned SMaRT Station equipment. The three participating cities contribute to these replacement efforts and to payment of debt service based on fixed percentages established by the SMaRT Station Memorandum of Understanding (MOU) among the cities.

In February 2003, the City completed the sale of the City of Sunnyvale Solid Waste Revenue Refunding Bonds, Series 2003. The transaction produced net present value savings of \$1,231,530.93, or 6.756% of the par amount of the refunded bonds. The majority of the savings occur in the final year of debt service when the payments are covered by the reserve fund and reserve fund earnings. The savings are distributed to each of the three cities based on their share of the debt service established under the MOU. Sunnyvale will realize approximately \$681,000 in savings over the life of the bonds.

The SMaRT Station Fund shows decreases in both revenues and expenditures over the planning period based on updated tonnage projections submitted by all three participating cities. SMaRT operations are affected by the same economic conditions that were discussed earlier in relationship to the City's Solid Waste program. Large swings in tonnage projections are anticipated to be seen in future SMaRT Station Fund Long-Term Financial Plans in response to economic cycles, the independent solid waste management strategies of the three cities, and other factors.

Community Recreation Fund

This fund, which was created eleven years ago, contains the leisure service activities of the City, including the two City-operated golf courses, the tennis center, and recreation classes and services. Prior to the initiation of the Fund, leisure services were part of the General Fund, which routinely contributed more than \$2.5 million annually to the effort. The creation of the Community Recreation Fund included the merger of the City's golf and Tennis Center operations with the remainder of all other leisure service activities, as well as the adoption of new, entrepreneurial approaches to service delivery. This approach resulted in a significant reduction in the General Fund subsidy required to support leisure services in Sunnyvale.

Based on early gains, long-term projections were made soon after this Fund was created suggesting that it might be self-sufficient by FY 2000/2001. Careful

examination of the assumptions subsequently indicated that some of the revenue estimates could not be achieved, and the Transmittal Letter for FY 1997/1998 acknowledged that self-sufficiency was not realistic for leisure services in the current environment. Given recent Council-approved increases in heavily subsidized service areas (e.g., teen programs), a new Senior Center, and the development of the new 50-meter pool at Fremont High School, this is all the more true today.

Last fiscal year staff also identified the need to reconsider the overall impact of some of the strategies used to achieve this Fund's remarkable financial success. While representing a significant positive effect on the bottom line, the elimination of four management positions within the Division a number of years ago eventually caught up with the Department in terms of its ability to manage both day-to-day operations and non-routine projects.

Another strategy aimed at reducing expenses within the Fund was to rely heavily on the use of "temporary" employees or contract labor for the delivery of recreational services. While a good number of these positions were truly temporary in nature, some were relied upon to deliver on-going services, and deserved to either be classified as regular part-time or full-time City positions.

The recommended FY 2002/2003 Budget addressed both these staffing issues. Related changes resulted in a significant increase in expenditures for the cost of personnel above and beyond those increases due to medical coverage, worker's compensation, and other labor expenses. However, revenue generation in the Community Recreation Fund was also projected to increase significantly and certain operational changes were made to reduce costs.

Golf operations continue to be the greatest single source of revenue for this Fund. A number of new employees are now overseeing related operations, and they have had an immediate and positive effect on both the services we provide our golfers, and the financial position of golf services. The courses have never been in better condition, and satisfaction surveys suggest our golfers are very pleased with playing conditions. Beginning in FY 2001/2002, this Fund reflected a modest improvement in golf revenues, reflecting the City's assumption of golf services formerly provided by Art Wilson Golf Services, Inc. Staff believes, and has demonstrated these past two years, that this transition to City operations will result in improved service as well as an improvement to golf's financial bottom line.

Future year projections of golf revenues take into account the golf industry's trend toward increased numbers of golf courses without corresponding increases in rounds of play. This is a trend we expect to experience as well, with several new courses developed or renovated in this area, and a projected decrease in golf rounds as a result. Everything is relative, of course, and Sunnyvale continues to lead the local courses in terms of golf rounds played.

As indicated earlier, we have increased the amount of the General Fund transfer to the Community Recreation Fund over the 20-year planning period to the amount necessary to support existing service levels. The provision of additional leisure services to the public, unless they are self-supporting, will require either additional General Fund transfers or a reduction in other services.

A fundamental tenet of this Fund, however, is that it can always reduce costs, to the point of becoming self-sufficient at any time by reducing or eliminating services. This is an important concept, and a reassuring one from a worst-case financial planning perspective. Many of the Fund's services to the public are self-sufficient, and would not save the City any money by being eliminated. In fact, some would have just the opposite effect. In addition, Council's continued support of market-based golf fees regardless of residency remains a critical factor in maintaining this important revenue stream and supporting other subsidized leisure services.

The dilemma, of course, is that the heavily subsidized services that would need to be eliminated to achieve self-sufficiency are those that are the least attractive to reduce from a public policy perspective (i.e., in terms of community benefit). They are those that serve our youth, senior, disabled and low-income populations.

This has become painfully evident during the City's exploration of ways to solve its current budget crisis. In order to reduce overall expenses associated with the Community Recreation Fund, staff has proposed \$208,301 in operating cuts as part of the budget reduction process discussed earlier. A complete list of operating reductions is included in *Volume IV* of the Budget document. Council is also made aware that while no service level reductions are currently proposed for recreational services to the City's seniors, staff is challenged by the proposed Fiscal Year 2003/2004 budget to eliminate the subsidy required by the senior lunch program. If in working with the City's seniors staff finds this challenge can only be met by reducing related service levels, it will return to Council for policy direction and guidance.

For FY 2003/2004, the recommended Budget reflects a General Fund transfer of approximately \$3.1 million. This is a \$350,000 increase over last year's projection of \$2,762,051. A supplemental transfer is also needed through FY 2007/2008, with the total transfer growing to \$3.4 million. Over the past several years, reserve funds were used to maintain existing services as an alternative to increasing the General Fund transfer. However, the Community Recreation Fund 20-Year RAP will be reduced to about \$100,000 by the end of FY 2002/2003 and will be maintained as a small emergency reserve for the rest of the planning period. Over the first ten years of the planning period, an additional \$1.5 million in General Fund transfer above what was projected last year will be needed to maintain leisure services programming at its current level.

The recommended FY 2003/2004 Budget and Ten-Year Resource Allocation Plan includes no new capital projects in the Community Recreation Fund.

Information Technology Enterprise Fund

As part of Sunnyvale's innovative efforts to streamline building permitting processes, the Information Technology Department developed a permitting software program called SunGIS. Other municipalities expressed a desire to purchase this product, and in FY 1999/2000 the City established the Information Technology Enterprise Fund to represent the revenues and expenditures associated with enhancement and marketing of City-developed software. In September 2000, the City entered into an agreement